

PUBLIC SERVICE PENSIONS ACT 2013

EXPLANATORY NOTES

COMMENTARY ON SECTIONS AND SCHEDULES

Cost Control

Section 12: Employer cost cap

77. This section requires scheme regulations for defined benefits schemes made under section 1 to set an employer cost cap and sets out how this cap should be set, measured and operated. The section does not apply to defined contributions schemes, or injury and compensation benefit schemes, as these schemes do not require this type of cost control.
78. *Subsections (1) and (2)* require scheme regulations to set a rate, known as the employer cost cap, which is to be used for measuring the costs of a scheme made under section 1 and, subject to Treasury directions made under this section, those of any connected schemes as defined in section 4(6).
79. *Subsection (3)* provides that the cap is to be set in accordance with Treasury directions.
80. *Subsection (4)* gives non-exhaustive examples of what those Treasury directions may cover. They may, in particular, specify how the first valuation under section 11 will be taken into account when setting the cap, and how costs or changes in costs at subsequent valuations are to be taken into account when measuring the costs of the scheme against the employer cost cap (the comparison that will be made at subsequent valuations).
81. The directions may also specify to what extent the costs of connected or other schemes are to be taken into account when setting the employer cost cap.
82. *Subsection (5)* requires the Treasury to make regulations to determine how the cap will operate. Treasury regulations will:
- set margins either side of the cost cap; and
 - specify the target cost (within those margins) that the scheme should take action to return costs to if the costs of the scheme go beyond those margins.
83. *Subsection (6)* makes provision for scheme regulations to specify the processes to be followed to reach agreement on the action to be taken if the cost of the scheme arising from a second or subsequent valuation does not fall within the margins set out in Treasury regulations. A default action may also be specified if there is no agreement.
84. *Subsection (7)* provides that the action taken to bring the scheme costs within the margins may include an increase or decrease in members' benefits or contributions. It is not envisaged that such action will affect any pension already built up in the scheme.
85. *Subsection (8)* allows Treasury regulations to make consequential and supplementary provision. It also allows regulations to make different provision for different schemes with regard to the way the employer cost cap is set, measured and operated.

*These notes refer to the Public Service Pensions Act 2013
(c.25) which received Royal Assent on 25 April 2013*

86. *Subsection (9)* provides that Treasury regulations under this section are subject to the negative Commons procedure (as defined in section 38(5)).